

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Southeast Macomb Sanitary District

**Financial Report
with Supplemental Information
June 30, 2006**

Southeast Macomb Sanitary District

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Independent Auditor's Report

To the Board of Directors
Southeast Macomb Sanitary District

We have audited the accompanying basic financial statements of Southeast Macomb Sanitary District (the "District") as of June 30, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southeast Macomb Sanitary District at June 30, 2006 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedule of operating expenses (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the other supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on Southeast Macomb Sanitary District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 24, 2006

Southeast Macomb Sanitary District

Management's Discussion and Analysis

Using this Annual Report

Southeast Macomb Sanitary District (the "District") is a joint venture of three cities located in Southeast Macomb County: Eastpointe, Roseville, and St. Clair Shores. The primary role of the District is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the District. This is followed by the statement of cash flows, which presents detailed information about the changes in the District's cash position during the year.

Financial Overview

In analyzing the District's financial position, it is important to recognize the mission of the District. From a financial perspective, the District's core objective is to manage the long-term costs of sewage disposal for its three member cities. In essence, the District acts as a conduit for its three members. Over time, the amounts to be charged to its members will be equal to the District's costs of providing sewage transportation and treatment and maintaining reserves for upgrading the efficiency of the system's infrastructure.

Condensed Financial Information

The following table presents condensed information about the District's financial position compared to the prior year. Overall, net assets increased by approximately \$1,794,000. This was mainly due to the combined effect of liabilities decreasing by approximately \$1,500,000 and assets increasing by approximately \$296,000 from the prior year. The increase in assets was due mainly to the construction in progress on the enhanced inceptor venting system which increased fixed assets at a greater rate than depreciation decreased the fixed asset value. In addition, the District was able to pay the last invoice of the year for the excess flow costs prior to year end which allowed the accounts payable to decrease significantly from the prior year. While overall cash decreased from the prior year mainly due to infrastructure investments and the quicker turnover of invoice payments, the District did see an increase in net income in the current year of approximately \$248,000. While operating income remained consistent to prior year with operating revenue increasing at the same rate of operating costs of 1 percent, interest income from investments increased significantly from the prior year mainly due to increases in investment rates. The combined effect allowed current reserve levels to increase overall to cover future infrastructure and overhead needs without significant increases in charges to customers.

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Other)

	Year Ended June 30		Change	
	2006	2005	Amount	Percent
Assets				
Current assets	\$ 16,118,723	\$ 15,907,864	\$ 210,859	1
Capital assets	6,099,912	6,015,033	84,879	2
Total assets	22,218,635	21,922,897	295,738	1
Liabilities				
Current liabilities	2,940,069	4,438,562	(1,498,493)	-34
Accumulated employee benefits	59,688	59,688	-	-
Total liabilities	2,999,757	4,498,250	(1,498,493)	-33
Net Assets				
Invested in capital assets - Net of debt	6,099,912	5,935,790	164,122	-1
Unrestricted	13,118,966	11,488,857	1,630,109	16
Total net assets	<u>\$ 19,218,878</u>	<u>\$ 17,424,647</u>	<u>\$ 1,794,231</u>	10

The following table presents condensed information about the District's revenues and expenses compared to the prior year. The most significant change, as previously discussed, relates to an increase in nonoperating revenue, which increased approximately 74 percent from 2005, due to the higher interest rates available in the current year. The increase in operating costs was consistent with the increase in operating revenue of only approximately 1 percent from 2005.

	Year Ended June 30		Change	
	2006	2005	Amount	Percent
Operating revenue - Treatment fees	\$ 14,406,002	\$ 14,263,467	\$ 142,535	1
Operating expenses:				
Cost of sewage disposal	12,041,783	11,965,326	76,457	1
Operation and maintenance	921,680	864,160	57,520	7
Administrative and other	201,288	204,410	(3,122)	-2
Total operating expenses	13,164,751	13,033,896	130,855	1
Nonoperating revenue	552,980	317,121	235,859	74
Net income	<u>\$ 1,794,231</u>	<u>\$ 1,546,692</u>	<u>\$ 247,539</u>	

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Other)

Capital Asset and Infrastructure Planning

During the current year, the District began a new capital improvement project that will continue into next year. This project is creating an enhanced interceptor venting system to improve the odor problem at Nine Mile Road and Jefferson Road. The cost of this project is being paid for mainly by net asset reserves.

Economic Factors and Next Year's Budgets and Rates

The District plans to increase rates only to the extent necessary to cover anticipated rate increases passed on by Wayne County.

Thus, operating costs will be largely dependent on the volume of sewage flow which is projected to remain fairly consistent to the prior year and with overall projected rate increases consistent with the rate of inflation of approximately 3.8 percent for the next fiscal year.

Contacting the District's Management

This financial report is intended to provide our member cities with a general overview of the District's finances and to show the District's accountability for the money it receives from the member cities. If you have questions about this report or need additional information, we welcome you to contact the District's offices.

Southeast Macomb Sanitary District

Statement of Net Assets June 30, 2006

Assets

Cash and cash equivalents (Note 3)	\$ 10,952,491
Investments (Note 3)	2,355,307
Accounts receivable	2,729,610
Accrued interest receivable	53,184
Prepaid insurance	28,131
Capital assets (Note 4):	
Subject to depreciation	5,851,792
Not subject to depreciation	<u>248,120</u>

Total assets	22,218,635
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Liabilities

Accounts payable	2,926,339
Accrued payroll and related taxes	13,730
Accumulated employee benefits	<u>59,688</u>

Total liabilities	<u>2,999,757</u>
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Net Assets

Invested in capital assets	6,099,912
Unrestricted	<u>13,118,966</u>

Total net assets	<u><u>\$ 19,218,878</u></u>
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Southeast Macomb Sanitary District

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

Operating Revenue - Treatment fees	\$ 14,406,002
Operating Expenses	
Cost of sewage disposal	12,041,783
System maintenance and operation	921,680
General and administrative	27,491
Depreciation	<u>173,797</u>
Total operating expenses	<u>13,164,751</u>
Operating Income	1,241,251
Nonoperating Revenue	
Interest income	547,480
Gain on disposal of assets	<u>5,500</u>
Total nonoperating revenue	<u>552,980</u>
Net Income	1,794,231
Net Assets - Beginning of year	<u>17,424,647</u>
Net Assets - End of year	<u><u>\$ 19,218,878</u></u>

Southeast Macomb Sanitary District

Statement of Cash Flows Year Ended June 30, 2006

Cash Flows from Operating Activities

Cash received from customers	\$ 14,068,751
Cash payments to suppliers for goods and services	(13,540,276)
Cash payments to employees for services	<u>(949,171)</u>
Net cash used in operating activities	(420,696)

Cash Flows from Capital and Related Financing Activities

Construction in progress	(168,877)
Purchase of fixed assets	(89,799)
Proceeds from the sale of assets	<u>5,500</u>
Net cash used in capital and related financing activities	(253,176)

Cash Flows from Investing Activities

Interest received on investments	517,732
Net sale and maturities of investments	<u>(92,891)</u>
Net cash provided by investing activities	<u>424,841</u>

Net Decrease in Cash and Cash Equivalents (249,031)

Cash and Cash Equivalents - July 1, 2005 11,201,522

Cash and Cash Equivalents - June 30, 2006 \$ 10,952,491

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 1,241,251
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	173,797
Changes in assets and liabilities:	
Increase in accounts receivable	(337,251)
Decrease in accounts payable	<u>(1,498,493)</u>
Net cash used in operating activities	<u><u>\$ (420,696)</u></u>

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2006

Note 1 - Nature of Business and Significant Accounting Policies

Southeast Macomb Sanitary District (the "District") provides sewage disposal services to three participating municipalities in Macomb County, Michigan.

The District is governed by a three-member board appointed by the participating communities.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the District. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For the purpose of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents

Investments - Investments are recorded at fair value, based on quoted market prices.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal or Contractual Provisions - The District has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2006

Note 3 - Cash and Investments (Continued)

The District has designated five banks for the deposit of its funds. The District invests in accordance with Public Act 196 of 1997, but it has not adopted a formal investment policy. The District's deposits are in accordance with statutory authority.

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not specifically addressed a deposit policy for custodial credit risk. At year end, the District had \$12,914,652 of bank deposits (certificates of deposit, and checking and savings accounts) that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt (other than the U.S. government) securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market	\$ 78,135	AAA	S&P

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	2005	Transfers	Additions	Disposals	2006	Depreciable Life - Years
Capital assets not being depreciated:						
Land	\$ 79,243	\$ -	\$ -	\$ -	\$ 79,243	-
Construction in progress	-	-	168,877	-	168,877	-
Subtotal	79,243	-	168,877	-	248,120	
Capital assets being depreciated:						
Pump station	2,926,919	-	-	-	2,926,919	50
Interceptor	512,292	-	-	-	512,292	50
Sewer improvements	3,559,007	-	63,063	-	3,622,070	50
Nine Mile plant	37,887	-	-	-	37,887	15-30
Improvements	200,636	-	-	-	200,636	10-25
Paving and sewer	17,661	-	-	-	17,661	15
Trucks and equipment	43,450	-	26,736	(23,995)	46,191	3
Furniture and equipment	59,704	-	-	-	59,704	5-10
Subtotal	7,357,556	-	89,799	(23,995)	7,423,360	
Less accumulated depreciation for:						
Pump station	(768,596)	-	(61,250)	-	(829,846)	
Interceptor	(277,283)	-	(21,365)	-	(298,648)	
Sewer improvements	(70,000)	-	(72,441)	-	(142,441)	
Nine Mile plant	(34,777)	-	(1,992)	-	(36,769)	
Improvements	(163,449)	-	(6,030)	-	(169,479)	
Paving and sewer	(17,661)	-	-	-	(17,661)	
Trucks and equipment	(34,419)	-	(7,683)	23,995	(18,107)	
Furniture and equipment	(55,581)	-	(3,036)	-	(58,617)	
Subtotal	(1,421,766)	-	(173,797)	23,995	(1,571,568)	
Net capital assets being depreciated	5,935,790	-	(83,998)	-	5,851,792	
Total capital assets -						
Net of depreciation	\$ 6,015,033	\$ -	\$ 84,879	\$ -	\$ 6,099,912	

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2006

Note 5 - Defined Benefit Pension Plan

Plan Description - The District has an agent defined benefit pension plan that is administered by an independent insurance company and covers substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries.

Funding Policy - The funding policy provides for periodic employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due.

Annual Pension Cost - For the year ended June 30, 2006, the District's annual pension cost of \$98,363 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the individual aggregate actuarial funding method. The aggregate actuarial cost method does not identify or separately amortize the unfunded actuarial liability. The significant actuarial assumptions used include (a) a 6 percent investment rate of return and (b) projected salary increases of 6 percent per year. The actuarial value of assets was determined using fair market value.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension cost (APC)	\$ 104,738	\$ 104,738	\$ 98,363
Percentage of APC contributed	100	100	100
Net pension obligation	\$ -	\$ -	\$ -

Note 6 - Postemployment Benefits

The District provides health care benefits to all full-time employees upon retirement. Currently, eight retirees are receiving benefits. The District includes retirees and their dependents in its insured health care plan, with no contribution required by the participants. The total expense for postemployment health care benefits, which is recognized as insurance premiums become due, amounted to approximately \$39,300 for the year ended June 30, 2006.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2006

Note 6 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

Note 7 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical and life insurance claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers’ compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Other Supplemental Information

Southeast Macomb Sanitary District

Schedule of Operating Expenses Year Ended June 30, 2006

System Maintenance and Operation

Salaries and wages	\$ 385,963
Pension expense	104,363
Payroll taxes	26,374
Hospitalization	136,975
General insurance	65,203
Life insurance	1,284
Dental and optical insurance	618
Repairs and replacement	98,482
Telephone	4,340
Utilities	8,844
Office supplies and expense	4,159
Fuel and oil	6,450
Engineering	77,636
Miscellaneous expenses	<u>989</u>

Total system maintenance and operation **\$ 921,680**

General and Administrative

Board meetings	\$ 2,370
Professional fees	23,786
Miscellaneous expense	<u>1,335</u>

Total general and administrative **\$ 27,491**



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October 24, 2006

To the Board of Directors
Southeast Macomb Sanitary District
20001 Pleasant Avenue
St. Clair Shores, MI 48080

Dear Board Members:

We have recently completed our audit of the financial statements of Southeast Macomb Sanitary District for the year ended June 30, 2006. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the board of directors and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the financial statements of Southeast Macomb Sanitary District in accordance with auditing standards generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising internal controls that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."



A worldwide association of independent accounting firms

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Internal Controls

In planning and performing our audit of the financial statements of Southeast Macomb Sanitary District for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the District does not have an adequate segregation of accounting duties. We consider this item to be a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable condition noted above is a material weakness.

To the Board of Members
Southeast Macomb Sanitary District

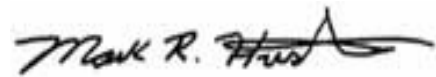
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October 24, 2006

As always, we thank the board for the opportunity to serve. We would be happy to answer any questions you may have regarding the annual financial report and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Mark R. Hurst". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark R. Hurst